



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, March 18, 2011
8:30 a.m., Arizona Time

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:33 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Connelly, Vice-chair (via teleconference)
Mr. Chris Harris (via teleconference)
Professor Dennis Hoffman
Mr. Tom Manos
Mr. Kevin McCarthy
Mr. Michael Townsend
Mr. Larry Trachtenberg
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Professionalism

Mr. Paul Matson, Director, recognized the following nominees for the PRIDE Award for Professionalism: The Webcast Project Team (Lisa King, Mark Muraoka, Jeff Hickman), the Human Resources Team (Frida Zilberman, Tracy Darmer, Neal Park, Jana George), Gayle Williams, Management Support Services Manager, and Zach Kucera, Administrative Project Coordinator.

They were nominated by their peers because they exemplify the following PRIDE qualities of professionalism: *"I know the importance of leaving everyone with a good impression of the ASRS. I am honest, trustworthy, courteous and respectful, even when faced with adversity. I have the knowledge, skills and abilities necessary to do my job well."*

Mr. Matson presented the PRIDE Award for Professionalism to the award winner Gayle Williams.

3. Approval of the Minutes of the February 18, 2010 Public Meetings of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the February 18, 2010 Public Meetings of the ASRS Board. Mr. Kevin McCarthy seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision in the Appeal of Mr. Thomas Solberg Regarding ASRS Membership Eligibility

Ms. Jothi Beljan, Assistant Attorney General, addressed the Board regarding Mr. Thomas Solberg's appeal. ASRS membership eligibility requires that a position be covered under the State of Arizona or participating political subdivision's Social Security Section 218 Agreement to provide for federal old age survivor's insurance i.e. Social Security retirement benefits.

Mr. Solberg argued his position does not cover hazardous duties and is not actually a firefighter position, but an administrator position and should be considered eligible for ASRS benefits.

Ms. Michele Briggs, State Social Security Administrator, noted she had informed the City of Peoria fire personnel positions were not covered under Section 218 and that it is not the ASRS' responsibility to reclassify a position. Ms. Briggs stated the process for the determination of eligibility (reclassification) of any fire personnel position should have been to address the exclusion of the City of Peoria fire chief position from the Section 218 coverage to the regional Social Security Office in Richmond, California, subsequent to a request for a determination from the State Social Security Administrator.

Ms. Beljan noted there is also a more encompassing procedure for extending Section 218 coverage to fire personnel positions at the City of Peoria. The City of Peoria could conduct a referendum, or an official vote, by its fire personnel to elect irrevocable coverage of their positions in the City of Peoria Section 218 Agreement. This would require the City's fire personnel to begin remitting Social Security and Medicare taxes.

Mr. Dave King, Assistant Director, Member Services Division, explained the ASRS educates its employers and then relies on them to correctly identify which of their employees are eligible for ASRS membership. The ASRS receives contributions on public employees with only the employee's name and the participating employer's name, but the ASRS does not record or frequently receive the employee's job title.

Motion: Mr. Chris Harris moved to accept the ruling of the Administrative Law Judge and remove the misstatement on page 5, line 14 of "after having previously determined him eligible" as the ASRS never affirmatively determined Mr. Solberg's position of Fire Chief eligible for ASRS membership. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 1 opposed, 0 abstentions, and 0 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding Level Income Annuity Option

Mr. Dave King addressed the Board regarding the level income annuity option. The ASRS Board requested that ASRS staff provide a follow up to the February 2011 Appeal. At the February 2011 ASRS Board meeting, the appellant Martha Yaeger stated that she was unable to obtain public assistance for her adult disabled child because of the manner in which her ASRS monthly annuity is reported on her ASRS income statement.

Mr. King summarized what the ASRS did in the past month to help Ms. Yaeger:

- The ASRS contacted the Arizona Department of Economic Security, Division of

Developmental Disabilities (DDD) on Ms. Yaeger's behalf. The ASRS provided Ms. Yaeger with a DDD representative name and telephone number.

- The organization Ms. Yaeger was having difficulty in demonstrating her correct ASRS income was Pima County One Stop which provides career development services. The ASRS has been attempting to contact Ms. Yaeger's assigned case worker at One Stop, but the case worker has not returned ASRS' messages. The ASRS will modify Ms. Yaeger's Level Income Income Statement for One Stop if necessary.
- Ms. Yaeger also stated at the February 2011 Board meeting that she was unable to contact an ADOA representative regarding her unpaid ADOA health insurance premiums. The ASRS provided Ms. Yaeger an ADOA representative name and telephone number and confirmed with Ms. Yaeger that she actually spoke with the ADOA representative regarding her health insurance and payment options.

Mr. King noted it does not appear the ASRS Level Income Statement format needs to be amended because:

- The Division of Developmental Disabilities (DDD) does not review the financial criteria of the parent;
- should an amended ASRS Level Income Statement format ever be required, the ASRS can amend as required;
- no other members have raised issues; and
- the current format accurately reports the historical payment and current payment to the member.

Mr. King said if Ms. Yaeger has any issues with private or public entities misunderstanding her current annuity amount, the ASRS will amend Ms. Yaeger's Level Income Statement to accommodate her needs.

6. Presentation, Discussion and Appropriate Action Regarding the 2011 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding ASRS 2011 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen said the Legislature is working on a bill that may ensure coverage under PSPRS for fire chiefs. She said the Senate sponsored ASRS appropriated budget bill was \$1 million below the requested amount.

7. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund Performance Review for the Period Ending 12/31/10

Mr. Gary Dokes, Chief Investment Officer, Mr. Dave Underwood, Assistant Chief Investment Officer, and Mr. Allan Martin, Managing Partner, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending December 31, 2010, highlighting specific areas of interest and concern.

The Total Fund Performance for the period ending December 31, 2010 is:

	Quarter	6 months	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	7.8%	17.7%	14.7%	0.7%	4.4%	4.3%	10.0%
Interim SAA Policy ¹	7.2%	17.3%	13.8%	0.1%	4.4%	3.8%	9.7%
Excess Return	0.6%	0.4%	0.9%	0.6%	0.0%	0.5%	0.3%

Note:

1. Interim SAA Policy: 35% S&P 500, 7% S&P 400, 7% S&P 600, 19% MSCI ACWI ex-U.S., 27% Barclays Capital Aggregate, 4% NCREIF ODCE (lagged one quarter), and 1% Russell 2000 (lagged one quarter)

2. Interim SAA Policy includes a proration of 2% Real Estate, 6% Private Equity, and 3% Inflation-Linked, which are unfunded. 9% of the proration is allocated to domestic equity, 1% to non-U.S. equity and 1% to fixed income

* Interim Benchmark prorates unfunded policy portion of Real Estate to other policy asset classes; prorates Private Equity, and Inflation-Linked to U.S. equities.

8. Presentation, Discussion and Appropriate Action Regarding ASRS U.S. Equity Program Review

Mr. Dokes, Mr. Underwood, and Mr. Martin addressed the Board regarding the U.S. Equity asset class reporting for quarter ending December 31, 2010. Mr. Dokes noted that as of December 31, 2010, the total market value of the ASRS U.S. Equity asset class (excluding Global Tactical Asset Allocation (GTAA)), was approximately \$11.5 billion. These assets are managed in 16 portfolios with 68% passively managed.

The ASRS U.S. Equity Asset Class outperformed its benchmark for one-, three-, five- and ten-year periods ending December 31, 2010. On an inception-to-date basis, the ASRS U.S. Equities underperformed its benchmark by 0.10%.

Mr. Dokes, Mr. Underwood, and Mr. Martin discussed their perspectives on the current equity environment and on recent portfolio rebalancings within U.S. Equity.

Mr. Matson said the ASRS has five internal equity portfolios managed by Mr. Underwood. Four of the portfolios have outperformed and one has equally performed to benchmarks since their inception. In addition, all five internally managed equity portfolios have outperformed since inception of Mr. Underwood as Portfolio Manager. He commended Mr. Underwood for his outstanding management of the portfolios.

9. Presentation, Discussion and Appropriate Action Regarding the Director's Outreach Presentations

Mr. Byers said this topic would not be discussed at this time, to accommodate several trustees' schedules.

10. Director's Report

Mr. Matson presented the Director's Report. He had no comments and there was no discussion.

11. Presentation and Discussion with Respect to Informational Updates from the Operations Committee, Investment Committee, and External Affairs Committee

Mr. Michael Townsend, Chair, External Affairs Committee, said the next External Affairs Committee meeting will take place April 1, 2011.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place April 11, 2011.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place April 28, 2011.

12. New Agenda Items

Requests were made earlier in the meeting for staff to report back on the status of legislation regarding some PSPRS retirees possibly being allowed eligibility for ASRS membership.

13. Call to the Public

No members of the public requested to speak.

14. Presentation, Discussion and Appropriate Action with Respect to the 2010 Review of the Director of the ASRS

Mr. Byers said the Board would adjourn to Executive Session which would take place in the 14th floor conference room in about 10 minutes and would adjourn from there.

After verifying with the Tucson office that no members of the public were remaining in attendance, it was decided not to reconnect to the Tucson office via teleconference upon adjournment of the Executive Session.

The Board recessed from the Regular Meeting at 11:23 a.m., to relocate to the 14th floor.

The Board convened to Executive Session at 11:31 a.m.

During the Executive Session, Mr. Larry Trachtenberg and Mr. Kevin McCarthy departed the meeting.

The Board returned to the Regular Meeting at 12:26 p.m.

Mr. Byers commended the Director on his excellent performance over the past year. He noted Mr. Matson is a great asset to the ASRS, members, and the State of Arizona. He said the Board would like to discuss this agenda item further at a special Board Meeting to be held within the next two weeks, covering only this topic.

Motion: Mr. Michael Townsend moved to table this agenda item and reconsider it in no more than two weeks' time. Professor Dennis Hoffman clarified that would be no later than April 1, 2011. Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

15. The next regular ASRS Board meeting is scheduled for Friday, April 15, 2011, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

16. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 12:29 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date